

EXPLORATION AGREEMENT WITH OPTION TO LEASE

CATAWBA

THIS EXPLORATION AGREEMENT WITH OPTION TO LEASE ("Agreement") is made effective this First day of September, 1985, by and between Bowater Incorporated, a Delaware corporation, whose address is P.O. Box 7, Catawba, South Carolina 29704 (hereinafter referred to as "Optionor"), successor in interest by mergers and name changes to Catawba Timber Company, and Amselco Exploration Inc., a Delaware corporation, whose address is 90 West Grove Street, Suite 100, Reno, Nevada 89509 (hereinafter referred to as "Amselco").

W I T N E S S E T H

In consideration of the covenants and agreements herein contained, the parties agree as follows:

Article 1 Rights Granted

a. ~~Grant of Exploration Rights.~~ For a period commencing as of the First day of September, 1985, and ending twelve (12) months thereafter (hereinafter referred to as "Primary Term") and in the event Amselco so elects, for two (2) immediately succeeding periods of twelve (12) months (hereinafter referred to in the singular as "Extended Primary Term"), Optionor does hereby grant to Amselco the rights of ingress and egress to and from, in,

HML052485

Query - it sounds to me like we have to purchase/exchange the entire
148 acres @ \$3378 = \$0.5m

13 is extended mine to 1/9/87 @ \$50/acre
2nd extension to 1/9/88

13 payment for damages to
ground. \$3 - \$25/acre

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upon or under, all or any portion of the lands described on Exhibit A (hereinafter referred to as "Subject Premises") attached hereto and made a part hereof. The total acreage of the Subject Premises shall be deemed to be one hundred forty-eight and two hundredths ~~(148.02)~~ acres until such time as Amselco may reduce its holdings in the Subject Premises pursuant to Article 13 or until such time as a more accurate survey of the Subject Premises shall disclose a greater or lesser acreage constituting the Subject Premises. Optionor further grants to Amselco the right from time to time to sample, to drill, to prospect, to trench and to do or make such other geological, geophysical, geochemical or other investigatory use thereof as Amselco deems necessary in its opinion adequately to sample, analyze, determine and otherwise search for deposits of minerals in an effort to determine mineral reserves in and under the Subject Premises. For purposes hereof, "minerals" shall mean all metallic or non-metallic minerals and ores which contain mineral matter or substances, now held or subsequently acquired by one or more of the parties, in and under the Subject Premises excluding only coal, oil, gas and associated hydrocarbon substances.

In the conduct of all such activities, Amselco shall (i) use due care and do no more damage to the Subject Premises than is reasonably incident to the exercise of the rights herein granted; (ii) conform with nationally accepted engineering and mining standards and practices; (iii) comply with all laws and governmental rules and regulations applicable to such activities on the Subject Premises; and (iv) ~~compensate Optionor for any damage to such part of the Subject Premises.~~

b. ~~Grant of Option to Lease.~~ Optionor does hereby grant to Amselco, and its successors and assigns, the exclusive right and option to lease, in the manner as described in Article 3 below and in accordance with all other terms and conditions as hereinafter set forth, ~~all of any one or more of the individual tracts~~ included in the Subject Premises, together with all ores, minerals, materials and mineral rights appurtenant thereto except coal, oil, gas and associated hydrocarbon substances within, on or under the boundaries of the tracts so leased. For purposes of this Agreement and any Mineral Lease Agreement effected hereunder, the word "tract" shall mean and refer to a ~~single contiguous body of land.~~

Article 2 ~~Control and Use of Property~~

In the event Amselco exercises its option to lease in the manner set forth, a Mineral Lease Agreement will be deemed to have been established giving and granting to Amselco the immediate and exclusive possession and control of those tracts of the Subject Premises leased by Amselco (hereinafter referred to as "Leased Premises") together with the exclusive right further to investigate, explore, examine and thereafter develop and work the same (by underground mining, surface mining, strip mining or any other method including any method hereafter developed); to use and control the ~~water and water rights~~ appurtenant thereto; to mine and remove from the Leased Premises the ores and minerals therein, thereon and belonging thereto; to deposit waste thereon; to treat, mill, store, ship, sell and otherwise dispose of the ores and minerals and to receive the full proceeds therefrom; and

to erect and operate thereon and therein buildings, structures, haul-geways, ~~dams~~, tailings ponds, ~~roads~~, ~~pipelines~~, ~~utility lines~~, machinery, equipment and any other improvements deemed by Amselco as necessary, useful or convenient for the full enjoyment of all of the rights granted to Amselco herein. The nature, location and extent of such exploration, mining or mining operations, if any, and the cessation and resumption thereof, shall be at the sole discretion of Amselco for so long as this Agreement or any Mineral Lease Agreement established hereby is in effect, subject, however, to such restrictions and limitations as may be imposed by law. The Subject Premises and Leased Premises are hereinafter referred to collectively as "Premises" with all references thereto being applicable during both the Primary and any Extended Primary Term and during any Mineral Lease Agreement effected hereunder.

Amselco is further granted under any Mineral Lease Agreement created hereunder the exclusive right to produce, remove, treat, stockpile or transport any ores, minerals, materials, waste and overburden from the Leased Premises or other lands and the right to mine and remove all ores and minerals from the Leased Premises through or by means of shafts, openings or pits which may be made in or upon adjoining or nearby properties. Amselco's operations hereunder, and its mining of adjoining or nearby lands, may be conducted as a single mining operation upon the Leased Premises and upon such other lands to the same extent as if the Leased Premises and all such other properties constituted a single tract of land.

Article 3 ~~Exercise of Option to Lease~~

At any time during the Primary Term of this Agreement or any Extended Primary Term as provided in Article 1 above, Amselco may exercise its option to lease either all of the Subject Premises or any of the entire tracts included therein by depositing written notice in the United States mail at any time ~~during the Primary and/or any Extended Primary Term~~ hereof, addressed to Optionor at the address indicated in Article 22 below. Said notice shall describe or otherwise depict by representation the tract or tracts of the Subject Premises selected by Amselco to constitute the Leased Premises.

Article 4 ~~Duration of Lease~~

Unless sooner terminated as hereinafter provided, any Mineral Lease Agreement established in accordance with the terms hereof shall be effective as of the date and year indicated in the notice conveyed pursuant to Article 3 and Article 22 and shall continue for so long as Amselco continues to make advance royalty payments or production royalty payments in the manner as hereinafter set forth; provided, however, that this Agreement ~~shall terminate twenty (20) years~~ after the date Amselco exercises its option to lease the Premises, unless, prior to that date, Amselco decides to pursue commercial production, notifies Optionor thereof and commences filing initial governmental permits required to begin commercial production. Should Amselco cease to pursue diligently commercial production after such anniversary date twenty (20) years following the date Amselco exercises its option to lease the Premises, then Optionor may terminate this Agreement by notifying Amselco thereof pursuant to Article 20 and Article 22. All

ferences in this Agreement to "year" or "lease year" shall mean the twelve (12) month period beginning on the effective date indicated in the notice or on an anniversary date thereof unless the context clearly requires some other interpretation.

Article 5 ~~Payment Schedule~~

a. Rental Payments/Primary and Extended Primary Terms. Amselco agrees to pay to Optionor upon the execution of this Agreement by the parties the sum of ~~fifty dollars (\$50.00)~~ per acre as rental for the Primary Term. Should this Agreement still be in effect, Amselco agrees to pay to Optionor the sum of ~~fifty dollars (\$50.00)~~ per acre on or before the first anniversary of the effective date of this Agreement as rental for the first Extended Primary Term. Should this Agreement still be in effect, Amselco agrees to pay to Optionor the sum of ~~fifty dollars (\$50.00)~~ per acre on or before the second anniversary of the effective date of this Agreement as rental for the second Extended Primary Term.

b. ~~Advance Minimum Royalty Payments~~. In the event Amselco exercises its option to lease any tract or tracts of the Premises in the manner above set forth, Amselco agrees to pay to Optionor the following sums per year as advance minimum royalty payable on or before the effective date of said Mineral Lease Agreement and on or before each anniversary date thereof:

<u>Year</u>	<u>Advance Minimum Royalty Payments</u>
Year one	\$ 15,000.00
Year two	\$ 30,000.00
Year three	\$ 45,000.00
Year four	\$ 60,000.00
Year five	\$ 75,000.00
Year six	\$ 90,000.00
Year seven and beyond	\$100,000.00

he advance minimum royalty shall be adjusted to its equivalent dollar value to reflect the change in the Consumer Price Index for all Urban Consumers published by the Bureau of Labor Statistics of the U.S. Department of Labor, from the effective date of this Agreement to the date of the end of the last calendar quarter before the advance minimum royalty payment is due. Advance minimum royalty payments shall be applied against payment of production royalties for a period of three (3) years immediately following the due date of the advance minimum royalty payment. Any part of an advance minimum royalty payment which has not been applied against production royalties on the third anniversary of the due date of that payment shall not thereafter be applied against production royalties.

c. Production Royalties. Upon the commencement of commercial production on the Premises, Amselco shall pay to Optionor a royalty in an amount equal to six percent (6%) of the net smelter return received or mineral sales made, if any, from ores mined, saved and marketed from the Premises. In the event a particularly valuable ore body is found, then the royalty rate provided for previously in this Article 5c will be increased from six percent (6%) to eight and one-half percent (8 1/2%) of the net smelter return received on all minerals for each applicable quarterly payment. "A particularly valuable ore body" is one which yields a quarterly average net smelter return of greater than one hundred thirty-five dollars (\$135.00) per short ton of processed ore. The sum of one hundred thirty-five dollars (\$135.00) referred to in the preceding sentence shall be subject to escalation based upon the Consumer Price Index for all Urban Consumers published by the Bureau of Labor Statistics of the U.S. Department of

*approx 2900
to 0.3750,
about 1131
rec'd*

abor. The sum for purposes of ascertaining the royalty payments for particularly valuable ore body in any given quarter shall be the reater of one hundred thirty-five dollars (\$135.00) or the sum of one undred thirty-five dollars (\$135.00) multiplied by a percentage equal o one hundred (100) plus the percentage increase in the Consumer Price Index for all Urban Consumers from the effective date of the agreement to the date of the close of the calendar quarter for which a production royalty payment is due.

All minerals extracted from ores mined from the Leased Premises, net smelter return received or metal sales made, if any, shall be evidenced by duplicate settlement statements furnished to Optionor by Amselco. Royalty settlements shall be made by Amselco on or before the thirtieth (30th) day after the end of the calendar quarter in which net smelter returns are received or metal sales are made by Amselco from ores mined from the Leased Premises. Each statement furnished to Optionor shall be deemed to be correct and binding unless Optionor, within ninety (90) days of its receipt, notifies Amselco that it disputes the correctness of each such statement and specifies its objections in detail.

"Net smelter return" shall mean all sums paid to Amselco for ores, concentrates or other products mined, saved and marketed from the Leased Premises after deducting all charges for loading, for insuring and for transporting to place of sale, all processing charges made by a smelter and, in the case of leaching operations, all processing and recovery costs incurred by Amselco beyond the point at which the metal being treated is in solution, and production, severance and excise taxes paid to any lawful taxing authority.

If such ores, concentrates or other products are sold for processing to a mill, smelter or other processing facility owned or controlled by Amselco, then the sums paid to Amselco shall be deemed to be no less than the sum that Amselco would have received if the sale had been to an independent mill, smelter or processing facility reasonably available to Amselco at the time of delivery and after deducting the above-specified charges and taxes.

d. At all times during the term of this Agreement and during the term of any Mineral Lease Agreement created hereunder, Amselco shall keep accurate books, records and accounts of all of its operations in, on or under the Subject Premises or the Leased Premises. Said books, records and accounts shall be open and available for inspection by Optionor, its accountants or attorneys, at the offices of Amselco on the Subject or Leased Premises or elsewhere, during normal business hours, for the purpose of comparing and verifying the accuracy of payments and royalty settlements made by Amselco. Further, said books, records and accounts shall be maintained and available to Optionor for a period of at least three (3) years during the terms of the Agreement and any Mineral Lease Agreement created hereunder and for at least three (3) years after the cancellation or termination of this Agreement or Mineral Lease Agreement created hereunder.

Article 6. Taxes and Assessments

Amselco shall pay all taxes assessed against any improvements which it may place on the Leased Premises and shall pay any increase

in taxes on the Leased Premises as a result of its operations thereon. Amselco shall not be liable for any taxes levied or measured by income of Optionor or based upon payments made to Optionor by Amselco under this Agreement or any other Mineral Lease Agreement created hereby.

Article 7 Commingling

Any minerals produced from the Leased Premises may be mixed or commingled with any other minerals or materials from other properties if they have first been weighed and assayed or if other procedures consistent with good mining industry practices are used by Amselco to determine the quantity and grade of minerals produced from the Leased Premises.

Article 8 No Express or Implied Covenants

Nothing in this Agreement nor in any Mineral Lease Agreement created hereby, including rentals or royalty payments, shall impose any obligations or covenants upon Amselco, express or implied, to conduct any exploration, development or mining operations upon the Premises, it being the intent of the parties that Amselco shall have the sole discretion to determine the time, method, manner and rate of conducting any operations thereon.

Article 9 Inspection

The Optionor, or its duly authorized agent or representative, shall be permitted to enter into or upon the Premises and the workings of Amselco at all reasonable times for the purpose of inspection, examination, surveying, measuring, sampling or performing assays but

shall make such entry so as not to hinder unreasonably the operations of Amselco, and Optionor shall indemnify and hold Amselco harmless from any damage, claim or demand by reason of injury to or the presence of Optionor or its agents or representatives or any of them on the Premises or the approaches thereto, not resulting from the negligence of Amselco.

Article 10 Protection from Liens

Amselco shall, at its expense, keep the Premises free from all liens resulting from its operations thereon; provided, however, that Amselco shall not be required to remove any such lien so long as it is contesting, in good faith, the validity or the amount thereof.

Article 11 Indemnification and Insurance

a. Amselco hereby agrees to indemnify and hold Optionor harmless from and against any and all claims and demands for personal injury, including death, whether to Amselco's employees or otherwise and for property damage resulting from or arising out of Amselco's operations on the Premises or any other activities of Amselco which are related to such operations, whether such claims or demands arise during the Primary or Extended Terms or during the term of any Mineral Lease Agreement effected hereunder. Property damage as used in this Article 11 shall not include damages to the Premises or the timber thereon for which provision is made in Article 15.

b. Before commencing any activities upon the Premises and during the term of any Mineral Lease Agreement effected hereunder, Amselco shall obtain and maintain in force the following insurance:

(i) Workmen's Compensation as required by the laws of the State of South Carolina;

(ii) Automobile and vehicle liability insurance with a minimum individual limit of five hundred thousand dollars (\$500,000.00) and an aggregate of one million dollars (\$1,000,000.00) for any one accident; and

(iii) Comprehensive public liability with the same individual and aggregate limits as herein required for automobile and vehicle insurance.

Amselco shall provide to Optionor current insurance certificates listing the above referenced insurance policies, showing the dates of expiration, the limits thereof and providing that said insurance will not be cancelled or changed until after ten (10) days' written notice to Optionor.

c. Any failure of Amselco to observe and comply with paragraphs a and b of this Article 11 shall constitute a default within the meaning and intent of Article 20.

d. In the event Optionor conducts any operations on the Premises, Optionor shall indemnify and save Amselco harmless from and against any and all claims and demands for damages for personal injury, including death, to any person and for property other than the Premises resulting from or arising out of Optionor's operations on the Premises or any other activities of Optionor which are related to such operations, whether such claims or demands arise during the Primary or Extended Terms or during the term of any Mineral Lease Agreement effected hereunder.

Article 12 Representations and Warranties

Optionor represents and warrants that it has not conveyed to others any interests in the Premises that are in conflict with, in limitation of or in any way inconsistent with the rights hereby granted to Amselco, except for easements and rights-of-way that are visible on the ground or of record. Except as expressly set forth in the preceding sentence, Optionor makes no representations or warranties as to its ownership in the Premises or the rights granted hereby. Optionor represents that, except as otherwise stated above, Optionor has the full right, power and capacity to enter into this Agreement and into any Mineral Lease Agreement created hereby upon the terms and conditions herein contained and that the President of Catawba Timber Company division of Bowater Incorporated has the express authority to execute this instrument on behalf of Bowater Incorporated.

In the event of a suit, adverse claim, dispute or question as to ownership of all or any portion of the Premises or of the right to receive any royalties or other payments herein, Amselco shall not be in default in payment of any sum due hereunder until thirty (30) days after Amselco has been furnished with certified copies of legal documents acceptable to Amselco disposing of such suit, claim or dispute. In the event of defects in title which Optionor fails to cure to the satisfaction of Amselco within a reasonable time after notice from Amselco, Amselco may cure said title defects and deduct the expense thereof, including reasonable attorneys' fees, from the succeeding installments of rental, advance minimum royalty or royalty payments.

Optionor also makes no representations or warranties as to the condition of the Premises, and Amselco shall accept the same as is.

Article 13 Cancellation

a. Notice. Amselco expressly reserves the right, notwithstanding any previous rental or royalty payment or payments, to cancel and terminate this Agreement and/or any Mineral Lease Agreement created hereunder at any time with respect to all or any tract or tracts of the Premises by giving or mailing to Optionor written notice at least fifteen (15) days prior to the termination date to be specified in said notice. Upon such cancellation, all obligations of Amselco, including the obligation to make payments, shall cease forthwith with respect to the specified tract or tracts of the Premises except as to any obligations accrued but unsatisfied prior to the termination date. Optionor shall be entitled to retain all sums previously properly paid by Amselco. This Agreement and/or any Mineral Lease Agreement created hereby shall remain in full force and effect with respect to all other portions of the Premises.

b. Written Relinquishment or Release. In the event of any such cancellation, and upon the request of Optionor, Amselco shall make, execute, acknowledge and deliver to Optionor an appropriate written relinquishment or release, releasing the tract or tracts of the Premises no longer subject to this Agreement back to Optionor.

Article 14 Lesser Interests

Without impairment of the above warranties and representations, if Optionor owns less than the entire estate herein granted in any one or more tracts of the Premises, then all rental payments, advance royalty payments and/or production royalties to be paid for product

mined and extracted from such tract or tracts shall be reduced and paid only in the proportion to which Optionor's interest in said tract or tracts of the Premises bears to the entire estate and interest herein granted. Failure of Amselco to reduce in a timely manner any royalties or other payments shall not impair Amselco's right to make such reductions subsequently.

Article 15 Surface Use and Protection

Amselco shall conduct its operations on the Premises in a safe and proper and legal manner, employing generally accepted mining practices, using modern and efficient machinery and equipment of a capacity suitable to the terrain and the method of mining employed, and shall take due precaution to prevent waste and unnecessary damage to the Premises. Amselco shall comply with all laws and governmental rules and regulations applicable to its operations on the Premises, whether now or hereafter in force. Optionor shall have the right to use the surface of the Premises for timber operations until such time or times as Amselco gives written notice to Optionor, if ever, that Optionor must cease its use of a tract or tracts of the Premises and vacate such tract or tracts.

During the Primary Term or Extended Primary Terms, Amselco shall compensate Optionor for removal of or destruction to timber by Amselco in the amount of three dollars (\$3.00) per tree for non-merchantable timber and twenty-five dollars (\$25.00) per tree for merchantable timber. "Merchantable timber" shall mean a tree of at least six inches (6") in diameter measured at breast height. All other standing trees, whether suitable for, or which may become suitable for, saw

timber, pulpwood, other saleable stumpage product or other commercial uses, shall be considered non-merchantable timber.

After the exercise by Amselco of its option to lease the Premises as provided in Article 3, if Amselco has provided written notice to Optionor (i) to vacate a tract or tracts of the Premises, (ii) that Amselco intends to commence mining of a tract or tracts of the Premises, or (iii) that Amselco intends to dump mining wastes on a tract or tracts of the Premises, Amselco and Optionor shall, within thirty (30) days of receipt of said notice, enter into exchange and agency agreements covering each entire tract concerning which such notice was given. The exchange agreement shall provide for an exchange of such entire tract or tracts which will qualify as exchange of like kind property with nonrecognition of capital gain under Section 1031 of the Internal Revenue Code of 1954, as amended, and rules and regulations thereunder. The exchange agreement shall provide that Optionor will grant all of its right, title and interest in each entire tract concerning which such notice was given, to Amselco in an exchange of like kind property when such like kind property having a value equal to that of the tracts concerning which notice has been given has been designated by Optionor and acquired in Amselco's name for exchange to Optionor. Optionor, in conveying its property to Amselco, shall reserve unto itself, its successors and assigns, all coal, oil, gas, associated hydrocarbon substances and all other minerals, as defined in Article 1a hereof, and mineral rights in, on or under the property so conveyed, together with the right to explore for and remove the same by any method, subject, however, to the Mineral

Lease Agreement from Optionor to Amselco provided in Article 1b hereof, which Mineral Lease Agreement shall be deemed to incorporate said minerals and mineral rights reserved by Optionor hereunder and which Mineral Lease Agreement shall survive such land exchange. Subsequent to the notice to Optionor specified above, Optionor shall be allowed a reasonable time before completing the land exchange to harvest and remove any and all timber from the tracts specified in the notice.

For purposes of any exchange made under this Agreement, the property conveyed by Optionor to Amselco shall be deemed to have a value of three thousand three hundred seventy-eight and 38/100 dollars (\$3,378.38) per acre, adjusted in the same percentage as the Consumer Price Index for all Urban Consumers published by the U.S. Department of Labor shall have increased or decreased between the effective date hereof and the end of the calendar quarter immediately preceding the date of any exchange agreement made hereunder.

Each party shall use its best efforts to avoid unnecessary interference with the operations of the other on each and every tract of the Premises. The parties further agree to cooperate in designing and constructing access roads in order to minimize damage to the Premises and to any timber owned by Optionor thereon and shall use existing roadways to the extent that it is reasonably possible to do so.

Upon cancellation or other expiration of this Agreement or of any Mineral Lease Agreement established hereunder, Amselco shall fill any test pits or trenches it has made in the surface of the terminated portion of the Premises, and fill or fence, at Amselco's discretion, any other holes, reseed any disturbed areas of the surface other than holes or excavations and in all other ways comply with applicable

federal, state or local laws relating to reclamation or environmental protection. In any event, Amselco will indemnify and save harmless Optionor against any failure of Amselco to comply with any applicable governmental environmental laws, regulations or ordinances.

Article 16 Surrender of Data

In the event of any termination of this Agreement or of any Mineral Lease Agreement established hereunder, Amselco shall furnish Optionor with one set of all available noninterpretive data, if any, pertaining to the Premises and developed or prepared by or for Amselco; provided, however, that Amselco shall not be liable to Optionor for the accuracy or completeness of any such data and further provided that Optionor shall keep all such data confidential to the extent provided in Article 23.

Article 17 Removal of Equipment

Upon any partial or complete termination or expiration of this Agreement or of any Mineral Lease Agreement established hereunder, Amselco shall have a period of one (1) year from and after the effective date of termination in which to remove from the terminated tract or tracts of the Premises all of its machinery, buildings, structures, facilities, equipment and other property of every nature and description erected, placed or situated thereon, except supports, track and pipe placed in shafts, drifts or openings in or on the Premises. Any property of Amselco not so removed at the end of said one (1) year period shall become the property of Optionor; provided, however, that Amselco does not make any warranties as to the condition of any such

property. Amselco shall have the right to keep a watchman on the Premises during said one (1) year period.

Article 18 Force Majeure

Except for the payment of rentals or royalties and as otherwise limited herein, Amselco shall not be deemed to be in default or to have ceased performance or operations hereunder during any period in which performance or operations are prevented by any cause reasonably beyond Amselco's control, each of which causes is called "force majeure." Force majeure shall include, without limitation, fire, flood, windstorms, other damage from the elements; strikes, labor disputes, inability to obtain competent workmen, riots, unavailability of transportation or necessary equipment; lack of a market reasonably satisfactory to Amselco for product from the Leased Premises; acts, laws, regulations or orders of any governments or agencies acting under semblance of authority; litigation; or any other causes or conditions not reasonably within the control of Amselco. All periods of force majeure shall be deemed to begin at the time Amselco stops performance or operations hereunder by reasons of force majeure, and Amselco shall notify Optionor of the beginning and ending date of each such period. The period for discharging Amselco's obligations with respect to any prevented performance shall be extended for the period of force majeure.

Article 19 Inurement and Assignment

The terms, provisions, covenants and agreements herein contained shall extend to and be binding upon and inure to the benefit of the

successors and assigns of the parties hereto, provided that no assignment by Amselco of all or any tract or tracts of the Premises shall relieve or release Amselco of its obligations or liability to Optionor hereunder.

Article 20 Default and Remedies

If Amselco shall at any time (i) fail to pay the rents and royalties for more than thirty (30) days after receipt of notice by Optionor that the same are delinquent, or (ii) if Optionor notifies Amselco that in Optionor's consideration Amselco has not complied with any of Amselco's obligations herein, other than the payments of rents and royalties, such notice specifying the alleged noncompliance, and if Amselco fails to comply with any such obligation or to commence complying and to pursue diligently the same within thirty (30) days of receipt of said notice from Optionor, then, and in either such event, Optionor shall have the right to terminate this Agreement forthwith upon notice to Amselco, but no such termination shall limit in any way Optionor's right to recover damages caused by such default or relieve Amselco of any obligations theretofore accrued hereunder.

Article 21 Memorandum of Exploration Agreement with Option to Lease

The Optionor agrees to execute, whenever requested to do so by Amselco, a memorandum of this Exploration Agreement with Option to Lease, and either party may record said memorandum.

Article 22 Notices

Any notice or communication required or permitted hereunder shall be in writing and shall be effective when personally delivered or when addressed:

If to Optionor:

Bowater Incorporated
P.O. Box 7
Catawba, South Carolina 29704

If to Amselco:

Land Manager
Amselco Exploration Inc.
90 West Grove Street
Suite 100
Reno, Nevada 89509

and deposited, postage prepaid, and registered or certified with return receipt requested, in the United States mail. Either Optionor or Amselco may, by notice given to the other as aforesaid, change its mailing address for future notices hereunder.

Article 23 Confidentiality

Optionor shall exercise reasonable care, during the term hereof, to prevent the disclosure of any information, including the terms of this Agreement or of any Mineral Lease Agreement created hereunder, it may obtain with respect to the results of the operations hereunder and to prevent the issuance of any press releases concerning the operations, except, however, (i) that if Optionor contemplates selling or assigning its interest, it shall have the right to disclose relevant information to a potential purchaser if it first obtains an agreement in writing, satisfactory to Amselco, from such third party and furnishes a copy of such agreement to Amselco that the third party shall hold confidential the information furnished to it; (ii) as may be

required by law; and (iii) as may be necessary to enforce its rights hereunder. This Article shall not prevent either party from recording the memorandum provided for in Article 21.

Article 24 Construction of Agreement

This Agreement or any Mineral Lease Agreement created hereby shall constitute the sole understanding of the parties with respect to the subject matter hereof, and no modification or alteration of any terms shall be binding unless such modification or alteration shall be in writing and properly executed. This Agreement and any Mineral Lease Agreement established hereby shall be governed and construed in accordance with the laws of the State of South Carolina. The title headings of the various sections of this Agreement are inserted for convenience only and shall not be deemed to be a part of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this instrument, in person or by duly authorized officer, as of the day and year first above written.

Executed in the presence of the two undersigned witnesses:

Mary L. Durham

Anne B. Morris

BOWATER INCORPORATED

By: [Signature] L.S.
President, Bowater Carolina
Company Division

Attest: [Signature]
Assistant Secretary

Executed in the presence of the
two undersigned witnesses:

Joseph J. Tammells

AMSELCO EXPLORATION INC.

By: A. P. Taylor L.S.
General Manager Exploration

Attest: H. M. Lane
H. M. Lane
Assistant Secretary

STATE OF TENNESSEE

COUNTY OF McMINN

The foregoing instrument was acknowledged before me this 18th
day of July, 1985, by C. H. Hornsby, Jr., President of Bowater
Carolina Company Division of Bowater Incorporated, a Delaware corporation,
on behalf of the corporation.

My commission expires:
March 3, 1986

Marie L. Graham
Notary Public

STATE OF NEVADA

COUNTY OF WASHOE

The foregoing instrument was acknowledged before me this 26th
day of August, 1985, by A. P. Taylor, General Manager, Exploration,
of Amselco Exploration Inc., a Delaware corporation, on behalf of the
corporation.

My commission expires:

July 31, 1987

Janette L. Hamm
Notary Public



JANETTE L. HAMM
Notary Public - State of Nevada
Appointment Recorded in Washoe Co.
MY APPOINTMENT EXPIRES:

Tract 1282, Parcel 1

EXHIBIT "A"
to
EXPLORATION AGREEMENT
with
OPTION TO LEASE

Bowater Incorporated Tract No. 1282, Parcel 1 located in McCormick County, South Carolina and being more particularly described as follows:

Being all of Parcel 1 of Tract 1282 conveyed by East Highlands Company to Catawba Timber Company by deed dated January 1, 1979 and of record in Deed Book 49, Page 142, in the Office of the Clerk of Court for McCormick County, South Carolina, containing 148 acres, more or less.

The southeastern boundary of said property was subsequently modified by two boundary line agreements dated November 17, 1980 and November 18, 1980 and of record respectively in Deed Book 54, Page 14, and Deed Book 54, Page 15, in the Office of the Clerk of Court for McCormick County, South Carolina, so that said property now consists of 148.02 acres.

SUBJECT to existing easements and rights of way for public roads and highways and public utilities, if any, extending into, through, over, or across the above described property.

Prior title reference: Deed Book 49, page 142, Office of the Clerk of Court for McCormick County, South Carolina.

Said Parcel and Tract described above is a single contiguous body of land and is a single tract as defined in Article 1(b) of the Agreement and Option to which this Exhibit "A" is attached.